

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 2734 - SB 2878

March 2, 2020

SUMMARY OF ORIGINAL BILL: Changes, from July 1 to July 15 of each year, the date by which the Commissioners of Revenue, Economic and Community Development, and Finance and Administration must publish a list of counties which are identified as distressed counties and are therefore eligible for an apportionment of sales and use tax revenue to commercial development districts in those counties.

FISCAL IMPACT OF ORIGINAL BILL:

NOT SIGNIFICANT

SUMMARY OF AMENDMENTS (014688, 015693): Amendment 014688 deletes all language after the enacting clause. Establishes that counties with three or more distressed rural counties bordering it will be defined as an “eligible county” for purposes of sales and use tax revenue apportionment to commercial development districts (CDD) in rural, economically distressed counties. Requires that an application for properties in such eligible counties must be submitted to the Commissioner of Finance and Administration on or after January 1, 2021, and no later than December 31, 2026.

Amendment 015693 adds language to the proposed legislation requiring the Commissioners of Revenue, Economic and Community Development, and Finance and Administration to determine that the tax revenue allocation is in the “best interest of the state” as defined in the proposed legislation, prior to certifying the CDD.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

Other Fiscal Impact - Additional allocations of state and local sales tax revenue generated from within any CDD may be made to the respective local government entities; however, the extent and timing of any such additional allocations cannot be estimated with any reasonable certainty.

Assumptions for the bill as amended:

- Public Chapter 985 of 2014 authorized an allocation of a portion of state sales tax revenue derived from 5.5 percent of the state sales tax rate on all sales in a CDD, and the amount of local option sales tax revenue not dedicated for school purposes pursuant to

Tenn. Code Ann. § 67-6-712(a)(1) derived from all sales in such CDD in excess of base tax revenues, to a county, municipality or an industrial development corporation created by a county, if certain specified criteria is met and Finance and Administration (F&A) determines that the CDD is not economically feasible without such tax revenue allocation.

- Public Chapter 985 requires the allocated amount to be exclusively used by the county, municipality or industrial development corporation for the purpose of paying the indebtedness, principal and interest, and closing costs incurred by such entities in financing the CDD.
- The fiscal memorandum for Public Chapter 985 estimated an increase in local revenue and an equal amount of forgone state revenue exceeding \$120,000 in FY15-16, \$150,000 in FY16-17, and \$500,000 in each year FY17-18 through FY36-37. In addition, it was estimated that there would be a transfer of local option sales tax revenue to the local entity to be used for repayment of debt incurred by such entity in financing a CDD estimated to exceed \$23,000 in FY15-16, \$34,000 in FY16-17, and \$100,000 in each year FY17-18 through FY36-37.
- Based on information previously provided by the Department of Revenue, no additional allocation of funds has been made as a result of Public Chapter 985; therefore, it is unknown if this legislation will result in any initial and additional allocations.
- According to information available from the Department of Economic and Community Development, there are 30 economically distressed counties in Tennessee, and at least four counties which have at least three economically distressed counties bordering them and are not an economically distressed county themselves.
- To the extent that CDDs are established within counties bordering at least three economically distressed counties in this state, additional allocations of state and local sales tax revenue generated within any such CDD may be allocated to local governments; however, no such additional allocations can be estimated with any reasonable certainty.
- Pursuant to Tenn. Code Ann. § 67-6-104(f), prior to certifying a CDD, the Commissioner of the Department of Revenue must determine that the CDD is not economically feasible without the tax revenue allocation.
- The proposed legislation expands upon that requirement by prohibiting any such allocation unless the Commissioners of Finance and Administration, Revenue, and Economic and Community development determine that the tax revenue allocation is in the best interest of the state. Best interest of the state is defined as a determination by the three Commissioners that the CDD is a result of the tax revenue allocation and that the economic benefits to this state resulting from the CDD outweigh the anticipated amount of the tax revenue allocation.
- The extent to which this expansion will impact future tax revenue allocations cannot be determined with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Krista Lee Carsner". The script is cursive and fluid, with the first letters of each name being capitalized and prominent.

Krista Lee Carsner, Executive Director

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